

Message Text

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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 2295
INFO AMEMBASSY DACCA
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AMEMBASSY LONDON
USMISSIO OECD PARIS
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS NEW DELHI 4576

PASS TREASURY AND FRB

E.O. 11652: N/A
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SUBJECT: GOI BUDGETS, IFY 1977/78

SUMMARY. SINCE THE INDIAN FINANCIAL YEAR ENDS MARCH 31, THE
NEWLY-APPOINTED GOI FINANCE MINISTER, H M PATEL, PRESENTED TO
THE PARLIAMENT ON MARCH 28 A QUOTE VOTE ON ACCOUNT UNQUOTE (OR
INTERIM) CENTRAL GOVERNMENT BUDGET FOR IFY 1977/78. THE PARLIA
MENT APPROVED IT AND SEVERAL OTHER (ANCILLARY) BUDGETS ON MARCH
30. THE 1977/78 CENTRAL GOVERNMENT BUDGET DEFICIT IS NOW ESTIMA-
TED AT RS. 6.32 BILLION (AT PRESENT LEVELS OF TAXATION), BUT
THIS DEFICIT IS LIKELY TO BE SUBSTANTIALLY REDUCED
BECAUSE OF LIKELY TAX INCREASES AND/OR EXPENDITURE CUTS WHEN THE
COMPLETE 1977/78 BUDGET IS PRESENTED THIS MAY. A FULL
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DEBATE ON THE BUDGET IS EXPECTED THEN. THE 1976/77 REVISED
BUDGET SHOWED A LARGER THAN EXPECTED DEFICIT OF RS. 4.25
BILLION. ONE OF THE ANCILLARY BUDGETS - FOR INDIAN RAILWAYS -
PROVIDES FOR A 1977/78 SURPLUS OF RS. 265 MILLION; PASSENGER
FARE AND FREIGHT RATES ARE EXPECTED TO REMAIN UNCHANGED IN THE FINAL
BUDGET. END SUMMARY.

1. IN A BRIEF SPEECH TO THE PARLIAMENT ON MARCH 28, FINANCE MINISTER PATEL SOUGHT APPROVAL (WHICH HE RECEIVED TWO DAYS LATER) FOR THE 1977/78 CENTRAL GOVERNMENT BUDGET BY MEANS OF A VOTE ON ACCOUNT UNQUOTE (CONTINUING RESOLUTION) FOR THE FIRST FOUR MONTHS (APRIL-JULY) OF THIS FISCAL YEAR. HE ALSO PRESENTED THE REVISED 1976/77 BUDGET. HE EXPLAINED THAT THE EXPENDITURES AS PRESENTED WERE PREPARED BY THE PREVIOUS GOVERNMENT AND THAT THE REGULAR 1977/78 BUDGET TO BE PRESENTED TO PARLIAMENT IN MAY WILL REFLECT THE POLICIES OF THE NEW GOVERNMENT. HE FURTHER STATED THAT THE MINISTRIES HAVE BEEN DIRECTED NOT TO UNDERTAKE OR COMMIT EXPENDITURES ON NEW PROJECTS UNTIL THE COMPLETION OF REVIEW OF THE FIFTH FIVE YEAR PLAN BY THE NEW ADMINISTRATION. IN THE CONTEXT OF THE GOVERNMENT'S ECONOMIC POLICY, HE STRESSED THE NEED FOR GROWTH WITH PRICE STABILITY, REMOVAL OF UNEMPLOYMENT AND POVERTY, AND PROGRESSIVE REDUCTION IN INEQUALITIES OF INCOME AND WEALTH.

2. PATEL REVIEWED THE BUDGETARY PERFORMANCE DURING THE CURRENT (1976-77) YEAR. WHILE TOTAL EXPENDITURES INCREASED TO RS 141.8 BILLION, RECEIPTS AMOUNTED TO RS 137.6 BILLION, RESULTING IN A HIGHER DEFICIT OF RS 4.3 BILLION (COMPARED TO RS 3.3 BILLION ESTIMATED AT THE TIME OF THE BUDGET PRESENTATION IN FEBRUARY 1976).

3. THE 1977/78 CENTRAL GOVERNMENT BUDGET ESTIMATES A PRELIMINARY DEFICIT OF RS 6.3 BILLION, WITH RECEIPTS PROJECTED AT RS 149.1 BILLION (AT PRESENT LEVELS OF TAXATION) AND EXPENDITURES AT RS 155.4 BILLION, UP 20 PERCENT OVER INITIAL ESTIMATES OF UNCLASSIFIED

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THE PREVIOUS YEAR HOWEVER, THIS DEFICIT IS LIKELY TO BE REDUCED SIGNIFICANTLY WITH THE LIKELY ANNOUNCEMENT IN MAY OF NEW TAXES AND/OR REDUCTIONS IN EXPENDITURES. THE FOLLOWING IS A SUMMARY STATEMENT OF THE BUDGET:

	1976-77	1976-77	1977-78
	BUDGET	REVISED	BUDGET
	(RUPEES MILLION)		

CURRENT

RECEIPTS	82,190	85,070	92,790
EXPENDITURE	76,900	85,540	94,080
SURPLUS/DEFICIT (PLUS)	5,290	(MINUS)	470 (MINUS) 1,290

CAPITAL	44,230	52,520	56,310
EXPENDITURE	52,800	56,300	61,340
DEFICIT (MINUS)	8,570	(MINUS)	3,780 (MINUS) 5,030

OVERALL DEFICIT	3,280	4,250	
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6,320

4. THE 1977/78 ALLOCATION FOR DEVELOPMENT EXPENDITURES IS 57 PERCENT (COMPARED TO 56 PERCENT IN 1976/77); DEFENSE EXPENDITURES, 18 PERCENT; INTEREST PAYMENTS, 10 PERCENT; AND OTHER SERVICES, 15 PERCENT. 1977/78 DEFENSE EXPENDITURES ARE ESTIMATED AT RS 28.1 BILLION, AN INCREASE OF 10.4 PERCENT OVER 1976/77 PRIMARILY BECAUSE OF HIGHER COST OF FOOD SUPPLIES AND TRANSPORT. WE ESTIMATE THAT DEFENSE EXPENDITURES CONTINUE TO BE 3.5 PERCENT OF GNP.

5. THE 1977/78 BUDGET INCLUDES ANNUAL PLAN EXPENDITURES FINANCED BY THE CENTRAL GOVERNMENT OF RS 57.9 BILLION, AN INCREASE OF 21.6 PERCENT OVER 1976/77. (INCLUDING THE ADDITIONAL EXPENDITURES BY STATE GOVERNMENTS, TOTAL 1977/78 ANNUAL PLAN EXPENDITURES ARE NOW EXPECTED TO AMOUNT TO RS 99.5 BILLION, UP 26.8 PERCENT OVER THE PREVIOUS YEAR.) CENTRAL GOVERNMENT PLAN EXPENDITURES UNCLASSIFIED

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ARE PROJECTED AT RS 41 BILLION, OF WHICH 50 PERCENT IS EARMARKED FOR THE INDUSTRIAL SECTOR AND MINERALS. EXPENDITURES ON FAMILY PLANNING ARE ESTIMATED AT RS 12.1 BILLION, DOWN 18.7 PERCENT OVER THE REVISED 1976/77 ESTIMATE BECAUSE OF THE NEW ADMINISTRATION'S PREFERENCE FOR VOLUNTARY FAMILY PLANNING.

6. THE 1977/78 INDIAN RAILWAY BUDGET CALLS FOR A SURPLUS OF RS 265 MILLION, COMPARED TO AN ESTIMATED SURPLUS OF RS 357 MILLION IN 1976/77. THE IMPROVED FINANCIAL PERFORMANCE DURING THE PAST YEAR WAS DUE LARGELY TO INCREASES IN PASSENGER AND FREIGHT TRAFFIC AND ECONOMY IN EXPENDITURES. BECAUSE OF THE ANTICIPATED SURPLUS IN THE NEXT FISCAL YEAR, THE RAILWAY MINISTER ANNOUNCED THAT THE EXISTING PASSENGER FARE AND FREIGHT RATES MAY CONTINUE UNCHANGED. THE RAILWAY'S ANNUAL PLAN EXPENDITURE IS ESTIMATED AT RS 5 BILLION FOR 1977/78, UP ABOUT 20 PERCENT OVER THE PREVIOUS YEAR. THE BUDGET PROJECTS A 5.3 PERCENT INCREASE IN FREIGHT TRAFFIC TO 217 MILLION METRIC TONS IN 1977/78.

7. COMMENT: THE NEW ADMINISTRATION HAS PROMISED TO MAKE CHANGES IN BOTH THE 1977/78 BUDGET AND THE FIFTH FIVE YEAR PLAN TO BRING THEM MORE IN CONSONANCE WITH ITS ECONOMIC PRIORITIES. CONVERSION OF THE RUPEE FIGURES IN THIS MESSAGE CAN BE MADE AT THE RATE OF RS 9 EQUAL DOLS 1.00.SCHNEIDDR

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